



Homeland
Security

August 6, 2008

MEMORANDUM FOR: Alec Watson, Acting Director
FEMA Mississippi Transitional Recovery Office

FROM: C. David Kimble, Director
Eastern Regional Office

SUBJECT: *Hurricane Katrina Activities for Hancock Medical Center*
Public Assistance Identification Number: 045-US3YR-00
FEMA Disaster No. 1604-DR-MS
Report No. DA-08-10

We performed an audit of disaster costs associated with Hurricane Katrina activities for Hancock Medical Center located in Bay St. Louis, Mississippi. The objectives of the audit were to determine whether the Medical Center was properly accounting for disaster-related costs and whether such costs were eligible for funding under the Federal Emergency Management Agency's (FEMA) disaster assistance programs.

As of July 11, 2007, the cut-off date of our review, the Medical Center had received an award of \$31.2 million from the Mississippi Emergency Management Agency (MEMA), a FEMA grantee, for emergency protective measures, repair/replacement of buildings and equipment, and other disaster-related activities. The award provided funding for 9 large projects¹ and numerous small projects. We limited our scope to \$14.6 million awarded under 2 large projects. The audit covered the period August 29, 2005, to July 11, 2007. During this period, the Medical Center had claimed costs of \$6.8 million (see Exhibit) and had received \$6.5 million of FEMA funds under the 2 large projects.

We conducted this performance audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We judgmentally selected samples of project cost documentation (generally based on dollar value); interviewed Medical Center, MEMA, and FEMA personnel; reviewed the Medical Center's disaster grant accounting system and its procurement policies and procedures; and performed other

¹ Federal regulations in effect at the time of Hurricane Katrina set the large project threshold at \$55,500.

procedures considered necessary under the circumstances to accomplish our objective. We did not assess the adequacy of the Medical Center's internal controls applicable to its grant activities because it was not necessary to accomplish our audit objective. We did, however, gain an understanding of the Medical Center's method of grant accounting and its policies and procedures for administering the activities provided for under the FEMA award.

RESULTS OF AUDIT

The Medical Center did not separately account for project expenditures on a project-by-project basis as required by federal regulations. Additionally, the Medical Center's expenditures for replacement of medical equipment and contents included \$2.2 million of costs that are ineligible for FEMA reimbursement.

- A. Project Accounting. The Medical Center's accounting system did not separately account for project expenditures on a project-by-project basis, as required by federal regulations (44 CFR § 13.20(b)(2)). Disaster-related receipts and costs for all projects were submitted and paid from the Medical Center's general account, with no accounting establishing project balances, receipts or expenditures. As a result, total costs claimed under individual projects could not be readily identified and there was high risk of expenses being duplicated among projects.

During our review, we brought this matter to the attention of Medical Center officials and they began setting up a subsidiary record for project-by-project accountability. The subsidiary record was completed upon conclusion of the review. Therefore, this finding contains no recommendation and no action is required by FEMA.

- B. Medical Equipment and Contents Replacement. The Medical Center was awarded \$13.6 million under Project 5527 for the replacement of medical equipment and contents destroyed within its main hospital building. The project was written as an "Improved Project", which allowed the Medical Center to make improvements to damaged equipment while restoring its pre-disaster function. According to 44 CFR § 206.203 (d), funding for such projects is limited to the federal share of the approved estimate of eligible costs. We reviewed projects costs totaling \$6.7 million and determined that \$2.2 million of the costs were ineligible, as follows:

1. Replacement Equipment Costs. The Medical Center claimed \$3.9 million for equipment destroyed as a result of the disaster. According to FEMA guidelines (*Public Assistance Guide FEMA 322*, October 1999, page 57), when equipment is not repairable, FEMA will approve the cost of replacement with used items of approximately the same age, capacity, and condition; replacement of a damaged item with a new item is acceptable if comparable used equipment cannot be located within a reasonable time and distance. The Medical Center, however, based its claim on the original purchase price of the equipment, which in most instances, was higher than the replacement cost of comparable used or new equipment. Also, in some cases, replacement cost was understated and replacement quantities overstated. Using replacement costs obtained from the equipment manufacturers for comparable equipment, we determined that eligible costs for the destroyed equipment was \$2,997,532, or \$910,837 less than the amount claimed. The individual equipment and questioned costs are identified in the table below.

Medical Equipment	Replacement Cost Claimed	Replacement Cost per Manufacturer	Amount Questioned
Watch Child Monitor system	\$200,000	\$ 70,000	\$130,000
CT Scanner	996,984	549,822	447,162
Telemetry Monitoring System	180,000	108,000	72,000
Becman Coulter Staks	101,250	27,000	74,250
Laser System ²	145,000	0	145,000
C-Arm Mobile X-ray ²	135,000	0	135,000
Various Understated costs	1,102,125	1,194,700	(92,575)
Accurate estimate, no difference ³	1,048,010	1,048,010	0
Totals	\$3,908,369	\$2,997,532	\$910,837

2. *Leased Equipment Costs.* The Medical Center claimed \$1,029,727 for replacement costs of leased equipment destroyed during the disaster. According to FEMA guidelines (*Public Assistance Guide FEMA 322*, October 1999, page 25), if an applicant leases a facility (i.e., building, system, or equipment), repairs to that facility are not eligible for FEMA funding unless the lease states that the lessee is responsible for the repairs. We reviewed the leases and determined that the Medical Center was legally responsible for damages to the equipment. However, the \$1 million claim was based on actual replacement costs of the equipment rather than the lower lease buyout costs of \$663,777. This resulted in an overstatement of \$391,950 as identified in the table below.

Lessor	Replacement Cost Claimed	Actual Lease Buyout Cost	Amount Questioned
Beckman Coulter	\$543,657	\$352,156	\$191,501
Pitney Bowes ⁴	19,000	0	19,000
Omniceil	385,000	235,860	149,140
Lanier	82,070	49,761	32,309
TOTALS	\$1,029,727	\$637,777	\$391,950

3. *Partial Ownership of Medical Equipment.* The Medical Center claimed \$1,756,954 as the full replacement cost of a Magnetic Resonance Imaging (MRI) machine. However, the Medical Center had only 51% ownership rights to the machine. According to 44 CFR § 206.223 (a)(3), an item of work must be the legal responsibility of an eligible applicant to be eligible for financial assistance. Because the MRI machine was not wholly owned by the Medical Center, only 51% of its replacement costs, or \$896,047, is eligible for FEMA reimbursement. Therefore, we question the difference of \$860,907 (\$1,756,954 less \$896,047).

² Destroyed equipment quantities were overstated.

³ Replacement costs stated were accurate on Cysto table, Mammograph, Specials Room #1, C-Arm BV300.

⁴ Per Hospital administration, this equipment was included on PW 5527 in error and should be removed.

RECOMMENDATIONS

We recommend that the Acting Director, Mississippi Transitional Recovery Office, in coordination with MEMA:

Recommendation #1. Inform the Medical Center that equipment replacement costs under the improved project 5527 should be based on the costs for used or comparable items.

Recommendation #2. Disallow the questioned costs of \$2,163,694.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with MEMA, FEMA, and Medical Center officials on February 14, 2008. Medical Center officials concurred with our findings and recommendations.

Please advise me by October 5, 2008 of the actions taken to implement the recommendations contained in this report. Should you have any questions concerning this report, please call me at (404) 832-6702 or Larry Arnold at (228) 385-1717. Key contributors to this assignment were Larry Arnold, Robin Rowan, and Pat McGowan.

cc: DHS Audit Liaison
FEMA Audit Liaison
Deputy Director, GCRO
Chief Financial Director, Gulf Coast Recovery Office
Regional Director, FEMA Region IV
Public Assistance Office, FEMA Mississippi Transitional
Recovery Office
Chief of Staff, FEMA Mississippi TRO
Mississippi State Coordinating Officer
Mississippi Legislative Auditor
Director of Finance, Gulf Coast Recovery Office

Hancock Medical Center, Bay St. Louis, Mississippi
FEMA Disaster No. 1604-DR-MS
Schedule of Funds Awarded, Costs Claimed, Reviewed, and Questioned
August 29, 2005 through July 11, 2007

Project Number	Amount Awarded	Project Costs Claimed	Project Costs Reviewed	Amount Questioned
797	\$ 1,007,043	\$ 1,254,649	\$ 1,084,522	\$ 0
5527	13,560,092	5,564,455	6,695,050	2,163,694
Totals	\$14,567,135	\$ 6,819,104	\$ 7,779,572	\$2,163,694